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C O N F I D E N T I A L SAN SALVADOR 000170

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SUBJECT: PROMINENT ECONOMISTS ON THE POLITICAL SITUATION

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Classified By: Charge d'Affaires Robert I. Blau, Reasons 1.4(B),(D)

¶1. (C) SUMMARY. Following ARENA's come-from-behind victory in San Salvador in the January 18 legislative/municipal elections, prominent economists, including many former ministers, were optimistic about ARENA's chances in the March 15 presidential race, but concerned over inducements ARENA may have given to the smaller parties to pull out. The ARENA government plan was seen as a serious document, despite questions over how much new bureaucracy would be created and how new programs would be funded. The selection and role of vice-presidential candidate Arturo Zablah, who proclaimed he would be "Vice President of the Economy," continued to raise doubts, especially given his tendency to propose new economic policy off the cuff and without research or data. Likewise, these ARENA loyalists worried about President Saca's continued control over ARENA and desire to run again in 2014. Ultimately, however, the trend in ARENA's favor was driven by a belief that they were again competitive combined with lingering doubts over who would run an FMLN-led government.
END SUMMARY.

¶12. (SBU) In early February, Econcouns and Econoff met separately with leading economists including former Minister of Finance Manuel Enrique Hinds, former Minister of Finance Guillermo Lopez-Suarez, former Central Bank President Rafael Barraza, former Minister of Economy Miguel Lacayo, former private banking association director Claudio de Rosa, economic/financial consultant Luis Membreño, and Mauricio Choussy, Director of Fitch El Salvador, to discuss the political situation and the state of the Salvadoran economy. Post will report on economic discussions septel.

MARCH TOO CLOSE TO CALL

¶13. (SBU) All commented on the shift in momentum towards ARENA following Norman Quijano's win in San Salvador on January 18. Hinds remarked that ARENA candidate Rodrigo Avila would "owe any victory" to Quijano. Barraza said that the Quijano victory had allowed ARENA to turn what was by any measure a defeat into a public relations victory. Lacayo commented that the FMLN's handling of the loss of San Salvador had hurt them, since they came off as "poor losers" and they spent so much time focused on San Salvador that they were not able to highlight their other victories effectively. (Note: As noted in reftel, the FMLN picked up three seats and ARENA lost two seats in the Legislative Assembly, the FMLN also added to its tally of mayors at ARENA's expense. End Note.) Lacayo added that ARENA had "gone all out" for San Salvador, diverting resources that cost them several other mayoral races.

¶14. (C) According to Lacayo, "the right" was now more united because of a desire to prevent an FMLN victory, and the Avila campaign would owe any victory to outside efforts, not its own less-than-competent campaign. He noted that the ARENA Internet campaign was run by outsiders, and a lot of money was being spent outside the Avila campaign's control.

¶ 15. (SBU) While all thought ARENA benefited overall from the withdrawal of the PDC and PCN from the presidential race, analysts split over where PCN votes would go. De Rosa stated that only maybe 2 out of 3 PCN votes would go to ARENA, but they would win 19 out of 20 PDC votes. Barraza said that ARENA would probably get 2 out of 3 votes from the PCN, but the FMLN would get 2 out of 3 PDC votes. Membreño said that turnout had been 11 percent higher in the January 2009 elections compared to the 2006 legislative/municipal election, and he expected a similar higher turnout in March. In Membreño's view, these approximately 300,000 additional voters would be the swing block that would actually determine the election, and he thought the final result would be 51-49 or 52-48. He said that ARENA had new momentum, but it was too close to call who would win in March.

¶ 16. (C) Speaking prior to the formal withdrawal of the small parties, Hinds said that he understood the PCN had requested and been promised control over the new port in La Union and the Corte de Cuentas (roughly equivalent to the GAO) in exchange for their support. Barraza added that he heard the PCN had also been pushing for control of the Ministry of Public Works. Choussy commented that the outcome of the January elections was terrible for the country's institutions, since the continued disproportionate power of the PCN would only serve to further erode them.

ARENA PLAN SERIOUS, BUT WITH FLAWS

¶ 17. (C) According to Hinds, ARENA gathered prominent columnists and opinion journalists together for a pre-announcement briefing on their Government Plan. Neither the presidential or vice-presidential candidate participated. Hinds commented that the people giving the briefing were "serious" and "had data," so he was finally reassured that if Rodrigo Ávila won he would have a good team that "wouldn't screw things up."

¶ 18. (SBU) Barraza also praised the plan as "serious," while noting several areas of disagreement. He said the plan created a lot of new government bureaucracy of questionable benefit. For example, he said, ARENA had looked to the Chilean model for coordinating social programs and development and "messed it up" by calling for a Ministry of Social Development of unclear responsibilities. The Ávila campaign also seemed to have included every single proposal their working groups have developed, including, Barraza noted, a "clown college." Barraza was not overly concerned, however, since he had "never met a President who even looked at the Government Plan after getting elected."

¶ 19. (SBU) López-Suárez expressed concern over the cost of the Government Plan, which called for a tremendous increase in government spending without documenting how it would pay for everything. López-Suárez also noted that the team used old figures for projected economic growth and tax revenues that did not accurately reflect El Salvador's decelerating economy.

¶ 10. (C) De Rosa, who assisted the Ávila campaign in drafting parts of the economic plan, said that the team had intentionally left out ARENA's tax-reform proposals, since they would not play as well politically. One tax reform plan, De Rosa said, would be implemented via the banking regulators. For personal loans, banks would be required to use official tax returns as the basis for proof of income. Similarly, for business loans, businesses would be required to submit their value-added tax payment receipts to the banks as proof of revenue. De Rosa said this simple regulatory change would significantly reduce evasion and revenues without increasing tax rates.

ARTURO ZABLAH A MAJOR CONCERN

¶ 11. (C) ARENA VP Candidate Arturo Zablah's statements on

becoming "Vice President of the Economy" in an Avila administration were a major cause of concern. AMCHAM President Armando Arias, a long-time friend of Zablah, commented that "coming close to power makes some people go a little crazy." Lopez-Suarez, who attended Monterrey Technical University with Zablah, remarked that "Arturo is like a spoiled child who, when he doesn't get his way, will take his ball and go home." Lopez-Suarez added that Zablah's opinions could not be swayed by any evidence or data to the contrary. Barraza said that he still cannot figure out why Zablah was selected, since all he had managed to bring to the ticket was "2,000 votes from the FDR."

¶12. (SBU) An additional concern was Zablah's penchant for pronouncing policy on the fly. Barraza cited Zablah's announcement, days after the Government Plan was released, that the Avila administration would also exempt anyone making less than \$1,000 per month from income tax. Based on rough calculations, Barraza said, this would exempt 92 percent of the population and eliminate 1/3 of the income tax base, at a cost of \$85 million. De Rosa, who had been tasked to develop this tax proposal more fully, acknowledged the cost, but dismissed it as "only \$8 million or so per month," which "really only caused problems for the government's cash flow."

¶13. (C) Barraza said that many in the private sector hoped Ambassador to the United States Rene Leon would become Technical Secretary to the President (equivalent to Chief of Staff), since he had enough bureaucratic heft and influence with Avila to counterbalance Zablah. Barraza was far from certain, however, that Leon would be willing to give up his post (or his LPR-status) in Washington.

SACA IN 2014?

¶14. (C) Hinds, Barraza, Lopez-Suarez, and Lacayo all thought that President Saca had been manipulating the campaign, including the selections of both Avila and Zablah, to maintain control of ARENA and ensure that Saca himself could run again in 2014. Lopez-Suarez called Saca the puppeteer controlling the Avila marionette. Hinds, Lopez-Suarez, and Lacayo all thought Zablah was put on the ticket in part to prevent a prominent Vice President from challenging Saca. Barraza, on the other hand, saw the potential for conflict between Saca and Zablah in 2014, since he thought Zablah likely wanted the Presidency as well.

¶15. (C) Hinds, Barraza, and Lacayo all stated that the three former ARENA presidents' (Cristiani, Calderon Sol, and Flores) appearance in the campaign was a sign that the "old guard" was re-grouping to battle Saca's influence within the party. Barraza noted, however, that "Saca beat us once before," and the efforts of the former presidents might not be enough to stave off Saca.

¶16. (C) One of Saca's advantages was his massive "war chest." Lopez-Suarez noted that the Avila campaign had only recently established a mechanism to receive donations directly. Before, the money had to flow either through Saca, or through ARENA's coffers, which Saca controls. Lacayo said that some prominent ARENA supporters had offered to throw a dinner for Avila, with a "guaranteed \$1 million in donations," provided that only Avila, his wife, and a personal aide attended -- nobody from the campaign staff was invited. Avila refused.

¶17. (C) Hinds said that Saca was maneuvering to maintain control under an Avila administration by controlling the ARENA block in the National Assembly and getting Saca's man installed as Minister of Finance. Hinds described the back-room discussions as "Saca gets Treasury, Zablah gets Economy, PCN gets the port, and Rodrigo can have the police."

¶18. (C) According to Lacayo, the distrust of Saca by many in the "old guard" or business wing of the party did not stem from any single event. Rather, it was "like a pot slowly

boiling until it explodes." Measures that they felt made ARENA less democratic, allegations of corruption, the selection process for both Avila and Zablah, and a sense that they no longer had a voice within the party all contributed to their dissatisfaction.

COMMENT

119. (C) Before January 18, most of these same ARENA-leaning economists predicted an FMLN victory, and the shift in momentum and optimism was palpable. Concern about Zablah is rampant across the private sector, however, with few (if any) holding a favorable opinion of him, and all hoped to see his influence in a new administration minimized. Many are waiting to see not just whether ARENA will win, but whether Zablah will be handed control of the economic apparatus of government and whether Saca will retain control of ARENA. ARENA's surge is likely due to this new sense that Avila now has a good chance to win combined with lingering and serious doubts over who would actually control an FMLN-led government.

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